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STATE OF CALIFORNIA
Office of the Auditor General
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Kurt R. Sjoberg
Acting Auditor General

February 12, 1990

F-922

Honorable Elihu Harris, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 2158
Sacramento, California 95814

Dear Mr. Chairman and Members:

This report presents the results of our audit of the California Exposition and State Fair (Cal Expo) for fiscal year 1988-89. Cal Expo has become fiscally independent and has improved its financial and management controls in each of the last four fiscal years. For fiscal year 1988-89, we noted the following conditions:

- For the third consecutive year, Cal Expo did not receive any support from the State's General Fund;
- Cal Expo's total revenues for the year exceeded its total expenses by approximately \$275,400. This was the fourth consecutive year that Cal Expo's total revenues have exceeded total expenses. Adding the \$275,400 to the excess revenues for fiscal years 1985-86, 1986-87, and 1987-88, Cal Expo ended the year with a surplus of approximately \$3.56 million in the California Exposition and State Fair Enterprise Fund (Enterprise Fund);
- During fiscal year 1988-89, Cal Expo completed deferred maintenance and repair projects worth approximately \$964,700. In past fiscal years, Cal Expo relied on special funding to pay the costs of deferred maintenance and repair projects. During fiscal year 1988-89, Cal Expo used the Enterprise Fund's reserves to pay the cost of the projects completed in that year. However, Cal Expo still needs to complete deferred maintenance and repair projects worth approximately \$4.1 million; and
- Cal Expo has made many improvements to its fiscal accounting and reporting system. However, some deficiencies still exist. For example, Cal Expo did not properly record the costs of several capital improvement projects completed during fiscal year 1988-89 or conduct a complete inventory of all of its property.

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Background

On January 10, 1986, the Office of the Auditor General issued a report entitled "Lack of Management Controls and Self-Generated Revenue Has Led to the California Exposition and State Fair's Lack of Fiscal Independence," Report P-490. This report detailed severe management problems at Cal Expo and concluded that a lack of self-generated revenue and poor management controls had contributed to Cal Expo's inability to achieve fiscal independence. The Food and Agriculture Code, Section 3337, which became effective February 25, 1986, requires the Office of the Auditor General to prepare a yearly report on the fiscal status of Cal Expo until January 1, 1991.

In April 1989, the Office of the Auditor General issued its third yearly report on Cal Expo entitled "The California Exposition and State Fair Is Fiscally Independent but Can Still Improve Its Financial Condition and Management Controls," Report F-828. This report concluded that, for the second time, Cal Expo did not receive any support from the State's General Fund and ended fiscal year 1987-88 with a retained earnings balance of approximately \$3.75 million in the Enterprise Fund. (However, as discussed in the Notes to the Financial Statements on page 17 of this report, the retained earnings of the Enterprise Fund as of June 30, 1988, were corrected to \$3.28 million from \$3.75 million.) Although Cal Expo's revenues had exceeded its expenses for a third consecutive year, this report also concluded that more improvement was needed for Cal Expo to achieve fiscal independence. Our current report contains the results of our financial audit of Cal Expo for the years ended June 30, 1989 and 1988. In the appendix of this report, we discuss Cal Expo's efforts to implement recommendations from our April 1989 report for improving the management controls and financial reporting system of Cal Expo.

In 1980, state law removed the responsibility for Cal Expo from the Department of Parks and Recreation and established Cal Expo as a separate, independent entity in state government. Cal Expo is responsible for managing the annual state fair and providing a site for events held during the remainder of the year (interim events). These interim events include simulcasted horse racing, harness racing, concerts, and vehicle shows.

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The annual state fair runs for an average of 17 days from mid-August to early September and provides a showcase for the agricultural, recreational, and industrial resources of the State. The state fair provides an arena for the presentation of new ideas and information for the education of visitors. Also, the state fair provides a marketplace for the demonstration, advertisement, and sale of goods and services. Finally, the state fair provides opportunities for youths, participating in programs such as scouting, Future Farmers of America, and 4-H, to compete in agricultural and livestock events.

Cal Expo opened on its present site in 1968. The site consists of approximately 700 acres along the American River in Sacramento County. Approximately 350 acres of the 700 acres are protected under the Bushy Lake Preservation Act; only a portion of the protected land may be used and only on a limited basis. The other 350 acres are used for the state fair and other events. Cal Expo facilities include a racetrack, exposition buildings, aquatic amusement park, and a concert amphitheater.

Cal Expo is governed by an 11-member board of directors, 9 of whom the governor appoints with the consent of the Senate. Of the 2 that remain, the speaker of the Assembly appoints one and the Senate Committee on Rules appoints the other. The board creates policies for Cal Expo and is responsible for its year-round management and operation. The board also appoints Cal Expo's general manager; however, the governor appoints the deputy general manager, the program manager, and the marketing manager. In 1980, state law required the board of directors to work toward a goal of fiscal independence from the State's General Fund.

Scope and Methodology

We conducted a financial audit of the Enterprise Fund as of and for the years ended June 30, 1989, and 1988. As part of our audit, we evaluated Cal Expo's internal accounting controls to determine the audit procedures and the extent of testing necessary to express an opinion on the financial statements of Cal Expo.

In addition, we evaluated Cal Expo's progress in correcting the management problems identified in our previous report. We reviewed the report recommendations and obtained Cal Expo's responses to them. We then reviewed Cal Expo's records, interviewed Cal Expo's personnel, and observed completed maintenance projects to determine the extent to which Cal Expo had implemented these recommendations.

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Cal Expo Continues To Improve
Its Financial Condition

In fiscal year 1988-89, Cal Expo did not receive any support from the State's General Fund. In addition, Cal Expo's total revenues for the year exceeded its total expenses by approximately \$275,400. This was the fourth consecutive year that Cal Expo ended the year with its total revenues exceeding its total expenses. Cal Expo generated approximately \$12.52 million in revenues during fiscal year 1988-89 from the state fair, interim events, and reimbursements for security, cleanup, and other services that Cal Expo provides. In addition, Cal Expo earned approximately \$691,000 in interest income from its deposits in the State's pooled money investment program and received approximately \$271,000 "transferred in" from other sources. (Revenues transferred in are monies that Cal Expo receives from other state funds and that Cal Expo did not generate or otherwise earn from its operations.) Cal Expo's total revenues from all sources during fiscal year 1988-89 were approximately \$13.5 million, which is approximately \$275,400 more than its total expenses for the year. Adding the \$275,400 to the excess revenues for fiscal years 1985-86, 1986-87, and 1987-88, Cal Expo had a total in retained earnings of approximately \$3.56 million in the Enterprise Fund as of June 30, 1989.

Although Cal Expo ended fiscal year 1988-89 with excess revenues of approximately \$275,400, Cal Expo's total revenues that it received during fiscal year 1988-89 from all sources decreased by approximately \$1.65 million. The revenue sources that showed the most significant decrease were state fair revenues and revenues transferred in.

According to Cal Expo's general manager, the 1988 state fair (fiscal year 1988-89) had, at the time, the highest number of paid admissions in the history of the Cal Expo site. According to Cal Expo records, the number of paid admissions for the 1988 state fair exceeded the number of paid admissions for the 1987 state fair by approximately 35,600. Although the increased number of paid admissions to the state fair resulted in increased revenues from parking and other activities held during the state fair, in total, the 1988 state fair generated approximately \$346,200 less in revenues than the 1987 state fair. The most significant reason revenues decreased during the state fair was because the revenues from horse racing decreased by approximately \$848,800. According to Cal Expo's general manager, the primary reason horse racing revenues decreased was that the Bay Meadows horse racing meet was extended two weeks, thus, overlapping the 1988 state fair

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horse racing meet. Table 1 compares the total revenues generated during the 1987 state fair with the total revenues generated during the 1988 state fair.

TABLE 1
CALIFORNIA EXPOSITION AND STATE FAIR
TOTAL REVENUES FOR THE
1987 AND 1988 STATE FAIRS

	<u>1987</u>	<u>1988</u>	<u>Increase (Decrease)</u>
Admissions	\$3,001,400	\$3,090,900	\$ 89,500
Horse racing	2,286,900	1,438,100	(848,800)
Food and beverages	936,600	904,500	(32,100)
Attractions	933,000	1,030,100	97,100
Commercial exhibits	635,000	741,400	106,400
Parking	467,200	692,400	225,200
Miscellaneous	114,200	128,600	14,400
Agricultural programs	107,600	111,100	3,500
Program exhibits	<u>25,900</u>	<u>24,500</u>	<u>(1,400)</u>
Total	<u>\$8,507,800</u>	<u>\$8,161,600</u>	<u>\$(346,200)</u>

In between state fairs, Cal Expo holds numerous events (interim events) at the Cal Expo facility to generate additional revenues. During fiscal year 1988-89, Cal Expo generated revenues from interim events of approximately \$3.68 million, which is an increase of approximately \$66,800 over revenues from interim events for fiscal year 1987-88. Although revenues from several interim events such as simulcasted horse racing and concerts decreased during fiscal year 1988-89, revenues from other interim events, such as commercial events, waterworld, and the July 4th celebration, increased sufficiently during fiscal year 1988-89 to cover the decrease in other interim events.

However, Cal Expo's increase in revenues from interim events did not cover the significant decrease of approximately \$1.53 million in the revenues transferred in from other sources during fiscal year 1988-89. Revenues transferred in decreased because Cal Expo did not receive discretionary allocations or any other funds from the Department of

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Food and Agriculture's (department) Satellite Wagering Account, which the department administers. In fiscal year 1987-88, Cal Expo received \$929,800 in discretionary allocations from the Satellite Wagering Account. In addition, during fiscal year 1987-88, Cal Expo received additional funds from the Satellite Wagering Account that included \$500,000 for a deferred maintenance project and \$76,700 as reimbursement for increasing the horse racing prize money paid during the 1987 state fair. Cal Expo did not receive similar funds from the Satellite Wagering Account in fiscal year 1988-89. Moreover, according to Cal Expo's general manager, the department requested during fiscal year 1988-89 that Cal Expo transfer back to the department \$300,000 of the \$500,000 that Cal Expo received in fiscal year 1987-88 for deferred maintenance.

Although Cal Expo generated less revenues from the 1988 state fair and did not receive any funds transferred in from the Satellite Wagering Account during fiscal year 1988-89, Cal Expo still ended fiscal year 1988-89 with a surplus of approximately \$275,400. This \$275,400 surplus combined with a \$3.28 million surplus carried over from fiscal year 1987-88 resulted in total retained earnings of approximately \$3.56 million in the Enterprise Fund for fiscal year 1988-89 as shown in the Statements of Revenues, Expenses, and Changes in Retained Earnings on page 12 of this report. However, Cal Expo reported its retained earnings as of June 30, 1989, in the Enterprise Fund as approximately \$5.3 million. Our figure and Cal Expo's figure for retained earnings are different because of differences in accounting treatment for certain items of revenues, reimbursements, and expenses. Although Cal Expo reports its financial condition according to state laws and regulations, we had to adjust Cal Expo's financial records to prepare the financial statements in accordance with GAAP, thus, presenting Cal Expo's financial data in the same way as a business in the private sector presents such data.

Cal Expo Continues To Complete Much Needed Deferred Maintenance Projects

In 1985, engineers from the Division of Fairs and Exposition of the Department of Food and Agriculture (department) completed a survey of the physical condition of the Cal Expo facility. The engineers determined that the Cal Expo grounds needed health, safety, structural, electrical, maintenance, and other work totaling almost \$5.4 million. In their report, the engineers concluded that "to generate additional revenue [Cal Expo] should have an attractive and well-maintained physical plant that will encourage the public to utilize its

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facilities." In addition, Cal Expo has revised certain costs and added some projects to the department's list. These revisions and additions increased the estimated costs for deferred maintenance and repair projects to approximately \$7 million.

In the four years since the engineers' report, Cal Expo has completed deferred maintenance and repair projects worth approximately \$2.9 million. Except for fiscal year 1988-89, Cal Expo has relied primarily on funding from other state funds to complete deferred maintenance and repair projects. In fiscal year 1985-86, Cal Expo received \$1 million from the State's General Fund and completed in that year deferred maintenance projects worth almost \$1 million. In fiscal years 1986-87 and 1987-88, Cal Expo received discretionary allocations from the Satellite Wagering Account, which, according to Cal Expo's general manager, helped Cal Expo to complete deferred maintenance projects. During these two fiscal years, Cal Expo completed deferred maintenance and repair projects worth approximately \$917,000. Although Cal Expo did not receive any special funding for deferred maintenance in fiscal year 1988-89, Cal Expo still completed deferred maintenance and repair projects in that year worth approximately \$964,700. For example, Cal Expo painted the main exhibit buildings and reroofed the security building. However, although Cal Expo has completed many of the deferred maintenance and repair projects, as of June 30, 1989, Cal Expo still has to complete an estimated \$4.1 million in deferred maintenance and repair projects.

Cal Expo Improved Its Fiscal
Accounting and Reporting System
but More Improvement Is Needed

Cal Expo has improved its fiscal accounting and reporting system, but some improvement is still needed to ensure accurate and reliable financial information and safeguard assets. During our current review of Cal Expo's fiscal accounting and reporting system, we found that, as we recommended in our previous report, Cal Expo has developed a capitalization policy to designate completed deferred maintenance and repair projects either as fixed assets to be capitalized and depreciated or as maintenance and repair expenses. We also noted that, as we also recommended, Cal Expo established a revolving fund receivables ledger, cancelled long-outstanding checks, and destroyed the signature areas of voided checks. In the appendix of this report, we discuss these improvements as well as other improvements that Cal Expo made to its fiscal accounting and reporting system.

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However, Cal Expo still needs to improve its accounting and reporting system because it does not always accurately record financial transactions and it has not conducted a complete inventory of its assets. Specifically, during fiscal year 1988-89, Cal Expo did not properly record expenses related to completed capital improvement projects, equipment acquisitions, liabilities, or depreciation. We discuss these errors as well as other errors and weaknesses in Cal Expo's fiscal accounting and reporting system in the Independent Auditor's Report on Cal Expo's internal control structure, on pages 18 through 23 of this report. Finally, all of the errors noted on these pages have been corrected in the audited financial statements presented on pages 11 through 13.

Conclusion

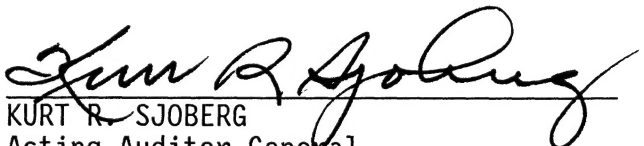
In fiscal year 1988-89, for the third consecutive year, the California Exposition and State Fair did not receive any support from the State's General Fund. In addition, for the fourth consecutive year, Cal Expo earned enough revenues to pay for its operations. Moreover, it paid for the cost of deferred maintenance and repair projects worth approximately \$964,700. Cal Expo's total revenues exceeded total expenses by approximately \$275,400 for fiscal year 1988-89, and it ended the year with a \$3.56 million surplus in the California Exposition and State Fair Enterprise Fund. However, as of June 30, 1989, Cal Expo must still complete approximately \$4.1 million of deferred maintenance and repair projects on the Cal Expo facility.

Finally, Cal Expo has made many improvements to its fiscal accounting and reporting system such as developing a capitalization policy for completed deferred maintenance and repair projects. However, some weaknesses still exist. For example, Cal Expo did not properly record the costs of several capital improvement projects completed during fiscal year 1988-89 or conduct a complete inventory of all of its property. We discuss these errors as well as other errors and weaknesses in Cal Expo's fiscal accounting and reporting system, and recommend solutions to these problems on pages 18 through 23 of this report.

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We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our scope to those areas specified in the audit scope section of this report.

Respectfully submitted,


KURT R. SJOBERG
Acting Auditor General



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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheets of the California Exposition and State Fair Enterprise Fund as of June 30, 1989 and 1988, the related statements of revenues, expenses, and changes in retained earnings, and the statements of changes in financial position for the years then ended. These financial statements are the responsibility of the management of the California Exposition and State Fair. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted governmental auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the California Exposition and State Fair Enterprise Fund as of June 30, 1989 and 1988, and the results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles.

OFFICE OF THE AUDITOR GENERAL

A handwritten signature in cursive script, appearing to read "Curt Davis".

CURT DAVIS, CPA
Deputy Auditor General

December 12, 1989

**CALIFORNIA EXPOSITION AND STATE FAIR
ENTERPRISE FUND
BALANCE SHEETS
AS OF JUNE 30**

	<u>1989</u>	<u>1988</u>
ASSETS		
Cash and pooled investments (Note 3)	\$ 7,332,082	\$ 7,743,041
Accounts receivable (net of uncollectables)	335,418	452,347
Due from other funds (Note 4)	345,523	284,693
Due from other governments	26,604	
Prepaid expenses	6,769	22,792
Advances and loans receivable	2,472	104,310
Fixed assets (Notes 2 and 5)	<u>12,072,442</u>	<u>11,878,182</u>
Total Assets	<u>\$20,121,310</u>	<u>\$20,485,365</u>
LIABILITIES AND FUND EQUITY		
Liabilities		
Accounts payable	\$ 478,351	\$ 1,038,831
Due to other funds	273,083	311,048
Installment contract	27,126	34,937
Compensated absences payable (Note 6)	286,856	253,221
Advance collections	193,869	343,481
Other liabilities	<u>77,121</u>	<u>78,964</u>
Total Liabilities	<u>1,336,406</u>	<u>2,060,482</u>
Fund Equity		
Contributed capital	15,226,548	15,141,964
Retained earnings (Note 8)	<u>3,558,356</u>	<u>3,282,919</u>
Total Fund Equity	<u>18,784,904</u>	<u>18,424,883</u>
Total Liabilities and Fund Equity	<u>\$20,121,310</u>	<u>\$20,485,365</u>

See the notes accompanying the financial statements.

**CALIFORNIA EXPOSITION AND STATE FAIR
ENTERPRISE FUND
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30**

	<u>1989</u>	<u>1988</u>
Operating Revenues		
Services and sales	\$12,516,547	\$12,839,107
Operating Expenses		
Personal services	6,173,552	5,907,463
Services and charges	5,905,713	5,943,589
Depreciation	<u>821,533</u>	<u>1,116,469</u>
Total Operating Expenses	<u>12,900,798</u>	<u>12,967,521</u>
Operating Income (Loss)	(384,251)	(128,414)
Nonoperating Revenues (Expenses)		
Interest revenue	690,918	485,094
Interest expense	<u>(2,230)</u>	<u>(1,747)</u>
Total Nonoperating Revenues (Expenses)	688,688	483,347
Other Financing Sources (Uses) (Note 9)		
Operating transfers-in	271,000	1,802,529
Operating transfers-out	<u>(300,000)</u>	<u></u>
Total Other Financing Sources (Uses)	<u>(29,000)</u>	<u>1,802,529</u>
Net Income	275,437	2,157,462
Retained Earnings, Beginning	<u>3,282,919</u>	<u>1,125,457</u>
Retained Earnings, Ending	<u>\$ 3,558,356</u>	<u>\$ 3,282,919</u>

See the notes accompanying the financial statements.

**CALIFORNIA EXPOSITION AND STATE FAIR
ENTERPRISE FUND
STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED JUNE 30**

	<u>1989</u>	<u>1988</u>
Sources of Funds		
From operations		
Net income	\$ 275,437	\$2,157,462
Add item not affecting cash		
Depreciation	<u>821,533</u>	<u>1,116,469</u>
Funds Provided From Operations	<u>1,096,970</u>	<u>3,273,931</u>
Contributed capital	84,584	70,681
Increases in liability accounts		
Accounts payable		533,952
Installment contracts		34,937
Compensated absences payable	33,635	61,192
Advance collections		128,701
Other liabilities		21,961
Decreases in asset accounts		
Accounts receivable	116,929	
Due from other funds		247,843
Due from other governments		622
Prepaid expenses	16,023	
Advances to other funds	<u>101,838</u>	
Total Funds Provided	<u>1,449,979</u>	<u>4,373,820</u>
Application of Funds		
Acquisition of fixed assets	1,015,793	575,169
Increases in asset accounts		
Receivables		129,088
Due from other funds	60,830	
Due from other governments	26,604	
Prepaid expenses		13,635
Advances to other funds		104,310
Decreases in liability accounts		
Accounts payable	560,480	
Due to other funds	37,965	27,982
Due to other governments		15,809
Installment contracts	7,811	
Advance collections	149,612	
Other liabilities	<u>1,843</u>	
Total Funds Applied	<u>1,860,938</u>	<u>865,993</u>
Net Increase (Decrease) in Cash and Pooled Investments	<u>\$ (410,959)</u>	<u>\$3,507,827</u>

See the notes accompanying the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Definition of Reporting Entity

In 1980, state law established the California Exposition and State Fair (Cal Expo) as a separate, independent entity in state government. On February 25, 1986, the enactment of Chapter 8, Statutes of 1986, created the California Exposition and State Fair Enterprise Fund (Enterprise Fund). Cal Expo is responsible for managing the annual state fair and providing a site for events held during the remainder of the year. These events include simulcasted horse racing, harness racing, concerts, and vehicle shows.

2. Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to state and local governments. Following is a summary of significant accounting policies that pertain to Cal Expo's financial statements.

A. Fund Accounting

The Enterprise Fund presents data on state activities that are similar to those found in the private sector. Enterprise funds account for goods or services provided to the general public on a continuing basis either when the State intends that all or most of the costs involved are to be financed by user charges or when periodic measurement of the results of operations is appropriate for management control, accountability, or other purposes.

B. Basis of Accounting

The Enterprise Fund is accounted for by using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Fixed Assets

Fixed assets, consisting of land, buildings and improvements, and equipment, are recorded in the Enterprise Fund either at cost or estimated fair market value at the date of acquisition, less accumulated depreciation (See Note 5). Depreciable fixed assets are depreciated over their estimated service lives, ranging from 3 to 40 years, using the straight-line method of depreciation.

3. Cash and Pooled Investments

Cal Expo's cash and pooled investments account includes general cash, revolving fund cash, cash deposited in the State's centralized treasury system, and cash on hand. In addition, this account includes the cash that Cal Expo deposited in the Surplus Money Investment Fund (SMIF). The SMIF is a portion of the State's pooled money investment program administered by the State Treasurer's Office. The disclosures required for the pooled investments program are presented in the general purpose financial statements of the State of California for the year ended June 30, 1988. The following schedule summarizes the cash and pooled investments account balance at June 30:

	<u>1989</u>	<u>1988</u>
General cash	\$ 356,988	\$ 563,422
Revolving fund cash	53,322	16,740
Cash in state treasury	8,471	1,329
Cash on hand	<u>54,301</u>	<u>20,550</u>
Subtotal	473,082	602,041
Deposits in SMIF	<u>6,859,000</u>	<u>7,141,000</u>
Total	<u>\$7,332,082</u>	<u>\$7,743,041</u>

4. Due From Other Funds

Cal Expo's due from other funds account primarily consists of the interest earned on its deposits in the State's pooled investment program from January 1, 1989, through June 30, 1989. The following schedule summarizes the due from other funds account balance at June 30:

	<u>1989</u>	<u>1988</u>
Interest due from SMIF	\$345,523	\$277,948
Due from various funds	<u> </u>	<u>6,745</u>
Total	<u>\$345,523</u>	<u>\$284,693</u>

5. Fixed Assets

The following schedule presents a summary of the fixed assets recorded in the Enterprise Fund as of June 30:

	<u>1989</u>	<u>1988</u>
Land	\$ 1,643,577	\$ 1,643,577
Buildings and Improvements		
Completed projects	27,496,515	26,703,710
Work in progress	<u>110,487</u>	
Total Buildings and Improvements	27,607,002	26,703,710
Equipment	<u>526,867</u>	<u>414,366</u>
Total Fixed Assets	29,777,446	28,761,653
Less accumulated depreciation	<u>17,705,004</u>	<u>16,883,471</u>
Net Fixed Assets	<u>\$12,072,442</u>	<u>\$11,878,182</u>

6. Compensated Absences Payable

As of June 30, 1989, and 1988, Cal Expo's liability for accumulated vacation, compensated time off, and personal holidays amounted to \$286,856 and \$253,221, respectively. The liability for compensated absences does not include amounts for accumulated sick leave because employees cannot receive cash for sick-leave balances when they leave state service. Accumulated sick leave may be exchanged upon retirement for service credits in an employee's retirement account.

7. Retirement Contributions

Regular employees of the Enterprise Fund are members of the statewide Public Employees' Retirement System (PERS), which is a defined benefit, contributory retirement plan for state and local government employees in California. The amount that the Enterprise Fund and its employees contribute to the PERS is determined actuarially under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as they are accrued. The Enterprise Fund's share of the retirement contributions for fiscal years 1988-89 and 1987-88 were \$351,635 and \$349,620, respectively.

8. Restatement of Retained Earnings

The ending retained earnings of the Enterprise Fund at June 30, 1988, were adjusted from \$3,752,090 to \$3,282,919 to correct for mathematical errors that Cal Expo made during fiscal year 1987-88. As a result of these mathematical errors, Cal Expo understated its operating expenses for fiscal year 1987-88, thus, overstating its net income and retained earnings at June 30, 1988, by \$469,171 each. The statements, as presented, have been corrected for these errors.

9. Other Financing Sources (Uses)

The following schedule summarizes the amounts transferred to or from the Enterprise Fund during the fiscal years ended June 30:

	<u>1989</u>	<u>1988</u>
Satellite Wagering Account	\$(300,000)	\$1,531,529
Fair and Exposition Fund	265,000	265,000
State Fair Policy Special Account	<u>6,000</u>	<u>6,000</u>
Total	<u>\$ (29,000)</u>	<u>\$1,802,529</u>

10. Subsequent Events

In October 1989, Cal Expo entered into an agreement with the Department of Food and Agriculture (department) and the California Fairs Financing Authority to build new livestock barns on the Cal Expo facility during fiscal year 1989-90 at a cost of approximately \$4.6 million. Under the agreement, Cal Expo and the department will share equally the cost of building the barns. To avoid depleting the Enterprise Fund's retained earnings, Cal Expo intends to borrow approximately \$1.8 million from the department's Satellite Wagering Account to cover its share of the construction cost. Cal Expo plans to repay the loan, plus interest, over approximately ten years. The interest rate on the loan will equal the interest rate of the State's pooled money investment program for each year that the loan is outstanding. Because Cal Expo's annual interest rate will vary over the life of the loan and because the date of each loan payment has not been determined, the Enterprise Fund's total future liability for this loan cannot be determined.



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660 J STREET, SUITE 300
SACRAMENTO, CA 95814

INDEPENDENT AUDITOR'S REPORT

Members of the Joint Legislative Audit Committee
State of California

We have audited the financial statements of the California Exposition and State Fair Enterprise Fund as of and for the years ended June 30, 1989 and 1988, and have issued our report dated December 12, 1989.

We conducted our audit in accordance with generally accepted auditing standards and Governmental Auditing Standards issued by the comptroller general of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the California Exposition and State Fair's (Cal Expo) financial statements are free of material misstatement.

In planning and performing our audit of Cal Expo's financial statements for the years ended June 30, 1989, and 1988, we considered its internal control structure to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The Department of Finance and the management of Cal Expo are responsible for establishing and maintaining an internal control structure. In fulfilling that responsibility, estimates and judgments from the department and the management are required to assess the expected benefits and related costs of the policies and procedures for the internal control structure. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation or policies and procedures may deteriorate.

For the purposes of this report, we assumed that Cal Expo's significant policies and procedures for its internal control structure covered the following areas: revenues and receipts, purchases and disbursements, cash, receivables, property and equipment, payables, and accrued liabilities. For all of these areas, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters that come to our attention that are related to deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Cal Expo's ability to record, process, summarize, and report financial data so that it is consistent with the assertions of management in the financial statements.

On December 12, 1989, my staff met with Joseph Barkett and Peter Sugar of Cal Expo to discuss weaknesses in Cal Expo's internal controls and recommendations to resolve these weaknesses. The following is a summary of the items discussed during the meeting.

Item 1. Inaccurate Year-End Financial Reports

Finding: Although Cal Expo continues to improve its fiscal accounting and reporting system, more improvement is needed to ensure reporting of accurate and reliable financial information and to safeguard assets. Cal Expo's accounting and reporting system still does not always provide accurate information for effective fiscal management because Cal Expo does not accurately record all financial transactions.

Cal Expo's year-end financial reports, as presented to the State Controller's Office, were inaccurate because Cal Expo did not properly record or failed to record some costs or expenses that it incurred during fiscal year 1988-89. As a result, Cal Expo understated its fixed assets by approximately \$638,600, overstated its advances to the Architecture Revolving Fund by approximately \$590,500, understated its contributed capital by approximately \$84,600, overstated its liabilities by approximately \$39,000, understated its depreciation expense by approximately \$53,800, and overstated its personal services and operating expenses by a total of approximately \$56,300. These errors have been corrected in the audited financial statements presented on pages 11

through 13. In the following sections of Item 1, we describe specific errors in Cal Expo's financial reports.

- Cal Expo Did Not Properly Record the Costs for Capital Improvement Projects

Cal Expo understated its fixed assets at fiscal year end because the accounting office did not properly record as a fixed asset the costs of several capital improvement projects completed during fiscal year 1988-89. For example, the accounting office did not properly record the cost of a project worth approximately \$501,000 that was under the control of the State Architect's Office even though the State Architect's Office considered the project complete before June 30, 1989. The accounting office should have reported the project's cost of \$501,000 as a fixed asset and reduced the amount of monies that it had advanced to the State Architect's Office by that same amount. In another example, the accounting office did not properly record the cost of a capital improvement project worth approximately \$84,600 that the Department of Food and Agriculture paid for. The accounting office should have recorded this project's cost of \$84,600 as a fixed asset and increased the contributed capital account by that same amount.

- Cal Expo Did Not Properly Record the Costs of Equipment Acquisitions

Cal Expo did not properly record or failed to record as fixed assets the cost of some equipment items acquired during fiscal year 1988-89. Specifically, Cal Expo's accounting office included in the equipment account and the accounts payable account the cost of equipment that Cal Expo had not received as of June 30, 1989. On the other hand, the accounting office failed to record in the equipment account the cost of equipment items that Cal Expo had received before June 30, 1989. The net effect of these errors was to overstate Cal Expo's fixed asset account by approximately \$12,500, as well as to overstate its accounts payable balance by approximately \$39,000.

- Cal Expo Improperly Recorded and Miscalculated Depreciation Expense

Cal Expo's accounting office did not record all of the depreciation expense that it calculated for fiscal year 1988-89. Although the accounting office calculated a total depreciation expense of \$813,808 for the year, it only recorded depreciation expense of \$767,795 in the financial reports. In addition, because the accounting office did not properly record or failed to record the cost of the capital improvement projects and the equipment items discussed above as fixed assets, it did not include these costs in its depreciation expense calculation, thus, miscalculating depreciation expense for the year. In total, Cal Expo understated its depreciation expense by approximately \$53,800.

Criteria:

The State Administrative Manual, Section 8621, requires that agencies record property in the fixed asset accounts and that agencies record depreciation. In addition, the State Administrative Manual, Section 8672, requires agencies to record in the asset accounts equipment purchased when the agencies file claim schedules to pay for the equipment. Finally, the State Administrative Manual, Section 7630, indicates that the balance of accounts payable should reflect the cost of goods or services received but not yet paid for.

Recommendation:

Cal Expo should record in the proper fiscal year all capital improvements made to the Cal Expo facility as fixed assets. In addition, Cal Expo should record equipment acquisitions in the year that Cal Expo actually received the equipment items. Also, Cal Expo should accrue as accounts payable all amounts that reflect the cost of goods or services received but not yet paid for. Finally, Cal Expo should accurately calculate and record in the financial reports the annual depreciation expense for its fixed assets.

Item 2.

Insufficient Control Over Fixed Assets

Finding:

Cal Expo does not maintain sufficient control over its fixed assets. Specifically, Cal Expo does not ensure that all items of equipment are tagged or that all items of equipment are included in the

equipment records. Of the 44 items of equipment that Cal Expo acquired or received during fiscal year 1988-89, Cal Expo did not assign tags to 11 of the items and, although Cal Expo assigned tags to 4 other equipment items, it did not attach or otherwise note the tag number on the items. Further, Cal Expo has not conducted a complete physical inventory of all property since August 1985 when the Office of the Auditor General hired an independent contractor to review Cal Expo's inventory control procedures and to conduct a complete physical inventory. Although Cal Expo conducted an inventory in May 1988, the inventory did not include all of Cal Expo's property. Until Cal Expo ensures that all items of equipment are tagged and included in the equipment records and until it conducts a complete physical inventory of its property and reconciles the inventory with its accounting records, Cal Expo's property is at risk of loss.

Criteria: The State Administrative Manual, Sections 8650 and 8651, requires agencies to tag all state property when practical and to record such property in its property records. In addition, the State Administrative Manual, Section 8652, states that state agencies should make a physical count of all property and reconcile the count with accounting records at least once every three years.

Recommendation: Cal Expo should tag all equipment items and ensure that all equipment is recorded in the equipment records. In addition, it should conduct a complete inventory of its fixed assets and reconcile the inventory with the property and accounting records.

Cal Expo's Internal Control Structure Has No Material Weakness

A material weakness may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. A material weakness is a reportable condition in which the design or operation of an element of the internal control structure does not reduce to relatively low risk the errors or irregularities in amounts that would be material in relation to the financial statements being audited.

Our consideration of the internal control structure would not necessarily disclose all matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable

conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the California Legislature, including the Joint Legislative Audit Committee and the management of Cal Expo. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Joint Legislative Audit Committee, is a matter of public record.

OFFICE OF THE AUDITOR GENERAL



CURT DAVIS, CPA
Deputy Auditor General

December 12, 1989

**THE CALIFORNIA EXPOSITION AND STATE FAIR'S
IMPLEMENTATION OF PREVIOUS OFFICE OF
THE AUDITOR GENERAL RECOMMENDATIONS**

In April 1989, the Office of the Auditor General issued a report entitled "The California Exposition and State Fair Is Fiscally Independent but Can Still Improve Its Financial Condition and Management Controls," Report F-828. Below are the recommendations from this report and a summary of the California Exposition and State Fair's (Cal Expo) efforts to implement them.

Recommendation

Cal Expo should continue to complete needed deferred maintenance and repair projects.

Status

During fiscal year 1988-89, Cal Expo completed deferred maintenance projects worth approximately \$964,700. In past fiscal years, Cal Expo relied on funding from other state funds to pay the cost of deferred maintenance and repair projects. However, Cal Expo paid the cost of deferred maintenance projects completed during fiscal year 1988-89 using the Enterprise Fund's reserves. Although Cal Expo has completed deferred maintenance and repair projects over the last four fiscal years worth approximately \$2.9 million, Cal Expo still has to complete deferred maintenance and repair projects worth approximately \$4.1 million as of June 30, 1989.

Recommendation

Cal Expo should fully implement its preventive maintenance plan to reduce the cost of repairs in the future.

Status

Cal Expo fully implemented its preventive maintenance plan during fiscal year 1988-89. Cal Expo used information developed from this plan to establish a maintenance plan and budget for fiscal year 1989-90. Cal Expo intends to continue to work on the plan, thus, generating more detailed maintenance information for future planning.

Recommendation

Cal Expo should complete a detailed marketing plan to promote the use of its facilities between state fairs and to maximize rental revenues.

Status

Cal Expo completed a detailed marketing plan that promotes the use of its facilities between state fairs to maximize rental revenues.

Recommendation

Cal Expo should develop a capitalization policy that establishes when maintenance and repair projects should be classified either as fixed assets to be capitalized and depreciated or as maintenance and repair expenses. In addition, Cal Expo should record as liabilities amounts owed at fiscal year end for goods purchased on installment sales contracts, including interest charges. Further, it should accrue as accounts payable all amounts that reflect the cost of goods or services received but not yet paid for. Finally, Cal Expo should record in the cash account balance at year end all cash that it collected by that year end and deposited or will deposit in the bank.

Status

During fiscal year 1988-89, Cal Expo established a capitalization policy for projects completed that designates completed maintenance projects as either fixed assets or maintenance and repair expense. Although this policy did not become effective until fiscal year 1989-90, Cal Expo did properly designate maintenance projects that it completed in fiscal year 1988-89 either as fixed assets or as maintenance and repair expenses. However, as discussed on page 20 of this report, Cal Expo did not properly record or failed to record as a fixed asset all of the expenses for capital improvement projects that it completed during fiscal year 1988-89. In addition, as discussed on page 20 of this report, Cal Expo improperly included or excluded the cost of equipment acquired but not yet paid for by June 30, 1989, thus, overstating the Enterprise Fund's liabilities by approximately \$39,000. However, Cal Expo did properly record as a liability the amount owed at fiscal year end on an installment purchase contract and recorded in the cash account balance the cash that it collected by fiscal year end.

Recommendation

Cal Expo should establish a revolving fund receivables ledger, cancel long outstanding checks, and cut, tear, or otherwise destroy the signature areas of all voided checks.

Status

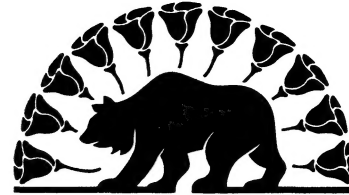
Cal Expo established a revolving fund receivables ledger, cancelled long outstanding checks, and cut out the signature areas of all voided checks.

Recommendation

Cal Expo should tag all equipment and ensure that all equipment is recorded in the equipment records. In addition, it should conduct a complete inventory of its fixed assets and reconcile the inventory with the property and accounting records.

Status

As discussed on pages 21 and 22 of this report, Cal Expo did not assign tag numbers to 11 of the 44 equipment items that it purchased during fiscal year 1988-89. In addition, although Cal Expo assigned tag numbers to 4 other equipment items purchased during the fiscal year, it did not attach the tag or otherwise note the tag number on the equipment items. In addition, Cal Expo did not perform a complete inventory of its fixed assets. Until Cal Expo conducts an inventory of all of its fixed assets and reconciles the inventory with property and accounting records, it is still at risk of loss.



California State Fair

924-2093

February 7, 1990

Kurt R. Sjoberg
Acting Auditor General
Office of the Auditor General
660 J Street, Room 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

Thank you for the opportunity to review and comment on the draft of your report entitled "California Exposition and State Fair's Financial Status for the Fiscal Year Ending June 30, 1989."

We are particularly pleased that the Office of the Auditor General prominently recognizes that this is the third consecutive year that Cal Expo did not receive any support from the General Fund and that this is the fourth consecutive year where total revenues exceeded total expenses. Cal Expo has shown over the last four years that it can be financially independent, improve dramatically the quality and attendance at the State Fair and address effectively the several million dollars of maintenance which had been deferred up to that period.

Generally, we found the report for the period audited to be factual and objective. Since your report recognizes our ongoing effort to improve the operations of the California Exposition and State Fair, we are limiting our response to a summary of the action taken or the actions we propose to take in addressing your findings and recommendations. In that connection, we have also carefully reviewed your two recommendations to resolve weaknesses in Cal Expo's internal controls.

Cal Expo has implemented a capitalization policy for completed projects effective for fiscal year 1989-90 that designates these projects as either fixed assets subject to depreciation or repair and maintenance expenditures. Thus, amounts recorded as fixed assets will be correct and properly recorded in the correct fiscal year. Therefore, the over and/or understatement of expenditure accounts, the overstatement of the advance account, and the understatement of the contributed capital account, which occurred in the prior year as a direct result of the errors in the fixed

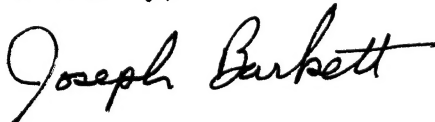
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February 7, 1990
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asset account, should not occur in future years. Similarly the correction of fixed asset account errors and differences attributable to timing of accounts payable accruals should resolve the related discrepancy to the financial statement.

As to the tagging of all inventory items, Cal Expo recognizes that several television sets purchased for viewing simulcast horse racing for satellite wagering were without tags and excluded from the inventory. This was an unusual situation occasioned by the replacement of these televisions through a joint powers authority of which Cal Expo is a member. Procedures are in place to properly tag and inventory any such purchases in the future. Additionally, Cal Expo is equally aware of the need for a complete physical inventory of equipment. As time and resources permit, Cal Expo will schedule this inventory.

Once again, we thank you for your review and look forward to working with your staff as we continue to implement many of your recommendations and improve our operations.

Sincerely,

A handwritten signature in cursive script that reads "Joseph J. Barkett". The signature is written in dark ink and is positioned above the printed name and title.

JOSEPH J. BARKETT
General Manager